

Patricia M. French  
Senior Attorney



300 Friberg Parkway  
Westborough, Massachusetts 01581  
(508) 836-7394  
(508) 836-7039 (facsimile)  
[pfrench@nisource.com](mailto:pfrench@nisource.com)

August 2, 2005

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Per the Transcript discussion in the above referenced Docket of July 14, 2005 at pages 1,410 through 1,412 on bad debt expense, please find a Corrected Schedule JES-6, Page 9 of 20 for the correct level of firm billed revenue for 2002. Also, attached are corrected copies of all pages of the cost of service impacted by this change. See below for a list of impacted schedules.

The correct level of firm billed revenue for 2002 is \$314,644,583. This correction changes the Net Write-off percentage to 2.15% from 2.17% and the total proposed write-off level from \$10,305,726 to \$10,210,743, or a reduction of \$94,983.

The impact on the Company's revenue requirement for this change is only \$36,033 due primarily to the fact that 69.07% of the change is offset via collection through the cost of gas adjustment clause. In addition the gross up factor changed and rate base changed due to the impact on Other O&M Cash Working Capital.

In addition to a corrected Schedule JES-6, Page 9 the following schedules and/or pages were impacted due to this correction.

<u>Schedule</u>	<u>Description</u>
Schedule JES-1	Revenue Requirement
Schedule JES-2	Revenue Deficiency Summary
Schedule JES-3	Computation of Revenue Requirement Factor
Schedule JES-4	Operating Revenue Summary
Schedule JES-5	Revenue Requirement Summary
Schedule JES-6, Page 1 of 20	Adjustment to Operating and Maintenance Expense Summary
	Computation of Federal Income and

Schedule JES-11

Massachusetts State Franchise  
Taxes

Schedule JES-13, Page 1 of 4

Rate Base Summary

Schedule JES-14

Adjustments to Rate Base –  
Allowance for Other O&M Cash  
Working Capital

Please note that no other change has been reflected in these schedules. Only the impact of the bad debt correction is reflected in these schedules.

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Per Ground Rules Memorandum issued June 13, 2005:

Paul E. Osborne, Assistant Director – Rates and Rev. Requirements Div. (1 copy)

A. John Sullivan, Rates and Rev. Requirements Div. (4 copies)

Andreas Thanos, Assistant Director, Gas Division (1 copy)

Alexander Cochis, Assistant Attorney General (4 copies)

Service List (1 electronic copy)

**Bay State Gas Company**  
**Adjustment To Operating Expenses - Bad Debt Expense - Gas Revenue**  
**Test Year Ended December 31, 2004**

<u>Line No.</u>	<u>Description</u>	<u>Firm Billed Revenue</u> (1) \$	<u>Net Write-Offs</u> (2) \$	<u>% of Write-Offs To Revenue</u> (3 = 2 / 1 )	<u>Reference</u> (4)
	Year:				
1	2002	314,644,583 (a)	7,526,468	2.39% (a)	WP-JES-6, Page 21, Ln 4, & Ln 17
2	2003	447,636,461	9,936,287	2.22%	WP-JES-6, Page 21, Ln 4, & Ln 31
3	2004	473,501,753	9,076,524	1.92%	WP-JES-6, Page 21, Ln 4, & Ln 44
4	Total	1,235,782,797	26,539,280		
5	Three Year Weighted Average of				
6	Net Write-Offs as a % of Firm Billed Revenue			2.15% (a)	
7	Test Year Normalized Firm Sales:			\$	
8	Test Year Firm Gas Revenues - Billed			489,361,562	Sch JES-4, Col. 1, Lns 4,5,6
9	Add: Firm Sales Adjustments			(14,443,301)	Sch JES-4, Col. 2, Lns 4,5,6
10	Test Year Normalized Firm Sales			474,918,261	
11	Allowable Bad Debt Expenses (Line 6 x Line 10)			10,210,743 (a)	
12	Less: Test Year Bad Debt Expenses 2004			3,199,694	WP-JES-6, Page 21, Line 53
13	Total Bad Debt Expense Adjustment (Line 11 minus Line 12)			7,011,049 (a)	

(a) Correcting Sch. JES - 6, page 9, as filed for 2002 Firm Billed Revenue.

Bay State Gas Company  
Revenue Requirement  
Test Year Ended December 31, 2004

Line No.	Description	Per Books (1) \$	Adjustments (2) \$	Adjusted Books (3 = 1 + 2) \$	Proposed Revenue Increase (4) \$	Revenue Requirement (5 = 3 + 4) \$	Proposed % Increase (6 = 4 / 3)	Reference (7)
1	Operation Revenue	510,457,335	(28,613,687) (a)	481,843,648	22,202,293	(a) 504,045,941	4.61%	Sch. JES - 4
2	Operating Expenses:							
3	Cost of Gas	323,863,512	(16,384,861)	307,478,651	0	307,478,651		Sch. JES - 5
4	O&M Expense	99,007,484	(57,038) (a)	98,950,446	477,349	99,427,795		Sch. JES - 6, Page 1 of 20
5	Depreciation	24,126,707	4,674,251	28,800,958	0	28,800,958		Sch. JES - 7, Page 1 of 4
6	Amortization	15,036,749	(8,483,854)	6,552,895	0	6,552,895		Sch. JES - 8, Page 1 of 3
7	Taxes Other Than Income	9,665,342	401,823	10,067,165	0	10,067,165		Sch. JES - 9, Page 1 of 4
8	Interest on Customer Deposits	0	72,506	72,506	0	72,506		Sch. JES - 10
9	Total Operating Expenses (Lines 3 through 8)	471,699,794	(19,777,173)	451,922,622	477,349	452,399,971		
10	Operating Income Before Income Taxes (Line 1 less Line 9)	38,757,540	(8,836,514)	29,921,026	21,724,944	51,645,970		
11	Income Taxes			7,187,205	8,521,609	15,708,814		Sch. JES - 11
12	Operating Income After Income Taxes (Line 10 less Line 11)			22,733,821	13,203,335	35,937,156		
13	Rate Base			397,095,644		397,095,644		Sch. JES - 13, Page 1 of 4
14	Return on Rate Base			5.73%		9.05%		

(a) Changed due to correcting Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.

Witness: Skirtich  
D. T. E. 05-27  
Exh. BSG/JES-1  
Schedule JES - 2 (CORRECTED)

Bay State Gas Company  
Revenue Deficiency Summary  
Test Year Ended December 31, 2004

<u>Line No.</u>	<u>Description</u>	<u>Amount (1) \$</u>	<u>Reference (2)</u>
1	<u>Revenue Requirement Calculation</u>		
2	Rate Base	397,095,644	Sch. JES - 13, Page 1 of 4
3	Return on Rate Base	<u>9.05%</u>	Sch. JES - 12
4	Required Return	35,937,156	
5	Operating Income After Taxes	22,733,821	Sch. JES - 1
6	Shortfall (Ln. 4 Less Ln. 5)	13,203,335	
7	Revenue Requirement Factor	<u>1.6816</u>	Sch. JES - 3
8	Revenue Deficiency	22,202,293	

Note:

Changed due to correcting Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.

**Bay State Gas Company**  
**Computation of Revenue Requirement Factor**  
**For The Twelve Months Ended December 31, 2004**

<u>Line No.</u>	<u>Description</u>		<u>Percentage of Incremental Gross Revenue</u> (1)	<u>Reference</u> (2)
1	Operating Revenue		100.0000%	
2	Less: Uncollectible 3 Year Weighted Average			
3	Bad Debt Percentage		2.1500%	(a) Sch. JES-6, Page 9 of 20
4	Net Revenues		97.8500%	(Ln 1 minus Ln 3)
5	State Franchise Tax	6.50%	<u>6.3603%</u>	(Ln 4 times 6.50%)
6	Income Before Federal Income Tax		91.4898%	(Ln 4 minus Ln 5)
7	Federal Income Tax @ 35%	35%	<u>32.0214%</u>	(Ln 6 times 35.0%)
8	Operating Income Percentage		59.4683%	(Ln 6 minus Ln 7)
9	Revenue Requirement Factor		<u>1.6816</u>	(a) (100 % Divided By Line 8)

(a) Changed due to correcting Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.

**Bay State Gas Company  
Operating Revenue Summary  
Test Year Ended December 31, 2004**

<b>Line No.</b>	<b>Description</b>	<b>Per Books (1) \$</b>	<b>Adjustments (2) \$</b>	<b>Annualized Revenue at Current Rates (3) \$</b>	<b>Reference (4)</b>
1	Residential Sales Revenue	334,824,296	(7,113,546)	327,710,750	Sch. JAF - 1-1
2	Comm/Industrial Sales Revenue	127,857,611	(3,652,138)	124,205,473	Sch. JAF - 1-1
3	Interruptible Sales Revenue	2,904,376	(2,904,376)	0	Sch. JAF - 1-1
4	TOTAL TARIFF REVENUES	465,586,283	(13,670,060)	451,916,223	
5	Residential Transportation of Gas	21,028	4,167	25,195	Sch. JAF - 1-1
6	Comm/Industrial Transportation of Gas	23,754,251	(777,408)	22,976,843	Sch. JAF - 1-1
7	Off System Sales	3,874,467	(3,874,467)	0	Sch. JAF - 1-1
8	Gas Property Revenue	1,513,333	0	1,513,333	Sch. JAF - 1-1
9	Rental Revenue	6,824,456	0	6,824,456	Sch. JAF - 1-1
10	Guardian Care/Inspections	7,690,936	0	7,690,936	Sch. JAF - 1-1
11	Lost Net Revenue	329,951	(329,961)	(10)	Sch. JAF - 1-1
12	Late Payment Charges	685,241	0	685,241	Sch. JAF - 1-1
13	Return Check Charge	27,736	0	27,736	Sch. JAF - 1-1
14	Carrying Costs-Pre tax of Rate of Return	(988,819)	988,820	1	Sch. JAF - 1-1
15	Prod & Storage Revenues	1,044,497	8,085,135	9,129,632	Sch. JAF - 1-1
16	Customer R&C Shut-off Turn-off	93,975	0	93,975	Sch. JAF - 1-1
17	TOTAL OTHER OPER. REVENUES	44,871,052	4,096,286	48,967,338	
18	Elimination of Indirect GAF and DAF	0	(26,092,473)	(26,092,473)	Sch. JAF - 1-1
19	Add back Bad Debt Exp. Included in Indirect Gas Cost	0	7,052,560 (a)	7,052,560	Sch. JAF - 1-1
20	TOTAL REVENUE	510,457,335	(28,613,687)	481,843,648	

(a) Changed due to correcting Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.

**Bay State Gas Company  
Revenue Requirement Summary  
Test Year Ended December 31, 2004**

<u>Line No.</u>	<u>Description</u>	<u>Per Books</u> (1) \$	<u>Adjustments</u> (2) \$	<u>Adjusted</u> (3) \$	<u>Reference</u> (4)
1	Total Cost of Gas	323,863,512	(16,384,861)	307,478,651	Sch. JAF - 1-1
2	Other Operating & Maintenance Expenses	99,007,484	(57,038) (a)	98,950,446	Sch. JES - 6, Page 1 of 20
3	Bad Debt on Proposed Rate Increase	0	477,349 (a)	477,349	Sch. JES - 1
4	Total Operating & Maintenance Expenses (Line 1 plus Lines 2 & 3)	422,870,996	(15,964,550)	406,906,446	
5	Depreciation Expense	24,126,707	4,674,251	28,800,958	Sch. JES - 7, Page 1 of 4
6	Amortization of Utility Plant	15,036,749	(8,483,854)	6,552,895	Sch. JES - 8, Page 1 of 3
7	Taxes Other Than Income	9,665,342	401,823	10,067,165	Sch. JES - 9, Page 1 of 4
8	Interest on Customer Deposits	0	72,506	72,506	Sch. JES - 10
9	Federal Income & Mass State Franchise Tax	11,571,079	4,137,735 (a)	15,708,814	Sch. JES - 11
10	Return on Rate Base	27,186,461	8,750,695 (a)	35,937,156	Sch. JES - 1
11	Total Other Items	87,586,339	9,553,156	97,139,495	
12	Total Revenue Requirement (line 4 plus Line 12)	510,457,335	(6,411,394)	504,045,941	

(a) Changed due to correcting Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.



**Bay State Gas Company**  
**Adjustments to Operating and Maintenance Expense Summary**  
**Test Year Ended December 31, 2004**

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1) \$	<u>Reference</u> (2)
1	Payroll Adjustment - Union	1,173,418	Sch. JES - 6, Page 2 of 20
2	Payroll Adjustment - Non-Union	443,840	Sch. JES - 6, Page 2 of 20
3	Incentive Compensation	(124,422)	Sch. JES - 6, Page 3 of 20
4	Medical and Dental Insurance	741,045	Sch. JES - 6, Page 4 of 20
5	Property & Liability Insurance Expense	94,997	Sch. JES - 6, Page 5 of 20
6	Self Insurance Claims	80,021	Sch. JES - 6, Page 6 of 20
7	Gain on Sale of Property	(408,197)	Sch. JES - 6, Page 7 of 20
8	Rate Case Expense	331,700	Sch. JES - 6, Page 8 of 20
9	Bad Debt Expense - Gas Revenue	7,011,049	(a) Sch. JES - 6, Page 9 of 20
10	Bad Debt Expense - EP&S	246,232	Sch. JES - 6, Page 10 of 20
11	NiSource Corporate Services Company	748,122	Sch. JES - 6, Page 11 of 20
12	Charitable Contributions	(147,271)	Sch. JES - 6, Page 12 of 20
13	Amortization of Deferred Farm Discount Credits	15,320	Sch. JES - 6, Page 13 of 20
14	Postage	67,947	Sch. JES - 6, Page 14 of 20
15	Research and Development Costs Related to GTI Activity	310,000	Sch. JES - 6, Page 15 of 20
16	Itron Lease Payment	310,104	Sch. JES - 6, Page 16 of 20
17	Metscan Meter Reading Lease Payment	(2,919,051)	Sch. JES - 6, Page 17 of 20
18	CGA & LDAC Recoverable Costs	(9,227,167)	Sch. JES - 6, Page 18 of 20
19	Inflation	<u>1,195,274</u>	Sch. JES - 6, Page 19 of 20
20	Total Operating and Maintenance Expense Adjustments	<u>(57,038)</u>	(a)

(a) Changed due to correcting Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.

**Bay State Gas Company**  
**Computation of Federal Income and Massachusetts State Franchise Taxes**  
**Test Year Ended December 31, 2004**

<u>Line No.</u>	<u>Description</u>	<u>Reference (1)</u>	<u>Detail (2)</u>	<u>Adjusted Before Rate Increase (3)</u> \$	<u>Proposed Rate Increase (4)</u> \$	<u>After Rate Increase (5)</u> \$
1	Operating Income Before Income Taxes	Sch. JES - 1		29,921,026 (a)	21,724,944	51,645,970
2	Less: Interest Costs					
3	Rate Base	Sch. JES - 13, Page 1, Ln 19	397,095,644 (a)			
4	Weighted Cost of Debt	Sch. JES - 12, Ln 1	2.85%	<u>11,317,226</u>	<u>0</u>	<u>11,317,226</u>
5	Net Income			18,603,800	21,724,944	40,328,744
6	Massachusetts State Franchise Tax		6.50%	<u>1,209,247</u>	<u>1,412,121</u>	<u>2,621,368</u>
7	Federal Taxable Income			17,394,553	20,312,823	37,707,376
8	Federal Income Tax Rate		35.00%	6,088,094	7,109,488	13,197,582
9	Amortization of Deferred Income Taxes Deficiency Amount Approved at DPU 92-11	WP JES - 11, Page 1, Ln 29	174,017			
10	Update for 1% Federal Income Tax Increase	WP JES - 11, Page 1, Ln 29	89,587	263,604	0	263,604
11	Less Amortization of Investment Tax Credit			(373,740)	<u>0</u>	<u>(373,740)</u>
12	Net Federal Income and Massachusetts State Franchise Tax (Lines 6, 8, 10, & 11)			7,187,205 (a)	8,521,609	<u>15,708,814</u>

(a) Corrected Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.

Bay State Gas Company  
 Rate Base Summary  
 Test Year Ended December 31, 2004

Line No.	Description	Per Books (1) \$	Adjustments (2) \$	Adjusted Books (3 = 1 + 2) \$	Reference (4)
1	Additions				
2	Total Utility Plant (Annual Return Page 18)	1,212,056,778	(451,173,568)	760,883,211	Sch. JES-13, Page 2, Ln 4, Page 3, Ln 3
3	Prepayments - Acct 165	0	0	0	
4	Cash Working Capital	11,449,225	(6,596) (a)	11,442,629	Sch. JES - 14, Ln 4
5	Material & Supplies	3,640,535	(232,466)	3,408,069	Sch. JES - 15, Ln 17
6	Total Additions	1,227,146,539	(451,412,630)	775,733,909	
7	Deductions				
8	Work in Progress (Annual Return Page 18) - Acct 107	7,385,734	(1,053,621)	6,332,113	Sch. JES - 13, Page 4, Ln 3
9	Plant Held for Future Use (Annual Return Page 18) - Acct 105	0	0	0	
10	Reserves:				
11	Deferred Taxes - Accounts 188, 268	86,081,290	(558,752)	85,522,538	Sch. JES - 13, Page 3, Ln 9
12	Depreciation (Annual Return Page 13) - Acct 254	266,210,015	(2,145,215)	264,064,800	Sch. JES - 13, Page 3, Ln 6
13	Amortization of Intangible Plant (Annual Return Page 13) - Acct 257	89,869,431	(70,541,969)	19,327,463	Sch. JES - 13, Page 2, Ln 8
14	Unamortized Pre-1971 ITC (Annual Return Page 33) - Acct 253	11,170		11,170	WP-JES-13, Page 1, Ln 53
15	Customer Advances (Annual Return Page 9) - Acct 252-02	11,088	0	11,088	
16	Customer Deposits (Annual Return Page 9) - Acct 235	3,090,784	0	3,090,784	
17	Unclaimed Checks - Account 232-05	278,310	0	278,310	
18	Total Deductions	452,937,821	(74,299,557)	378,638,265	
19	Total Rate Base	774,208,717	(377,113,073) (a)	397,095,644 (a)	

(a) Changed due to correcting Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.

**Bay State Gas Company**  
**Adjustments to Rate Base - Allowance for Other O&M Cash Working Capital**  
**Test Year Ended December 31, 2004**

<u>Line No.</u>	<u>Description</u>	<u>Per Books</u> (1) \$	<u>Adjustment</u> (2) \$	<u>Total</u> (3) \$	<u>Reference</u> (4)
1	<u>Cash Working Capital Components</u>				
2	O&M Expenses	99,007,484	(57,038) (a)	98,950,446	(a) Schedule JES - 1
3	Cash Working Capital Factor for Other O&M Expense	11.564%	11.564%	11.564%	Exh. BSG/JES - 2
4	Cash Working Capital Adjustment	11,449,225	(6,596) (a)	<u>11,442,630</u> (a)	

(a) Changed due to correcting Sch. JES - 6, page 9, for 2002 Firm Billed Revenue.